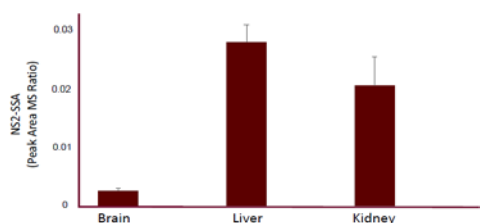


## Aldeyra Therapeutics (ALDX - \$ 6.97)

### Management Update Provided Renewed Confidence With Multiple Developments in Place

After a recent discussion with ALDX management, we walked away with renewed confidence that several clinical developments are in place, while the systemically delivered aldehyde traps are progressing well from the pre-clinical stage toward clinical development (possibly starting in 2016).

- Systemic NS2 would be available in human trial in 2016.** ALDX expects systemically delivered aldehyde traps could start human clinical studies in 2016 with the possible initial indications of succinic semialdehyde dehydrogenase (SSADH) deficiency and neurological symptoms of SLS. ALDX recently showcased data from a SSADH knock-out mice model exhibiting that an IV delivered NS2 has trapped aldehydes of different organs (Figure below). We believe more updates will be available later in a poster presentation at the American Society of Human Genetics (ASHG) Annual Meeting (Oct. 6-10, 2015). The second IV aldehyde trap also is in pre-clinical development for autoimmune crisis treatment.



Source: Company presentation

- Allergic conjunctivitis trial to start in 4Q15.** We anticipate the topical NS2 in allergic conjunctivitis (AC) Phase IIa trial to start in early 4Q15, with the same formula as the one used for anterior uveitis. We estimate the top-line results could be available in 2H16. AC is ALDX's second shot on goal for its ophthalmological NS2 program. In pre-clinical study, NS2 has demonstrated reducing pro-allergy cytokine, like IL-5, which is stimulated by aldehydes.
- Action.** We are reiterating our Buy rating and our \$30 target price based on peer comparable probability adjusted DCF analyses. Clinical NS2 development in orphan and inflammatory indications are all under study. We view the ALDX shares under-exposed and under-valued.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-15E</b>	-0.32A	-0.27A	-0.33	-0.36	-1.28	N.A.
<b>FY-14A</b>	-0.04	-1.43	-0.36	-0.39	-2.51	N.A.
<b>FY-13A</b>	-13.03	-5.47	2.76	18.47	3.49	N.A.
<b>FY-12A</b>	NA	NA	NA	NA	-124.44	N.A.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **ALDX**  
Rating: **Buy**  
Price Target: **\$ 30.00**

### Trading Data:

Last Price (09/15/2015)	\$ 6.97
52-Week High (1/28/2015)	\$ 13.50
52-Week Low (9/15/2014)	\$ 5.27
Market Cap. (MM)	\$ 68
Shares Out. (MM)	10

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## Anticipated milestones in 2015 and beyond

Product	Indication	Event	Timing	Importance
NS2 cream	Sjögren-Larsson Syndrome (SLS)	Potentially report Phase II study top-line results	1Q/2Q16	****
NS2 eyedrop	Noninfectious anterior uveitis	Potentially report Phase II study top-line results	2Q/3Q16	****
	Allergic conjunctivitis	Potentially report Phase II study top-line results	2H16	****
Systemic delivered NS2	Succinic Semi-aldehyde Dehydrogenase (SSADH) Deficiency and /or CNS disorders of SLS	Potentially report pre-clinical data	2016	***
		Potentially to start clinical studies	2016	****

\*\*\*\* / \*\*\*\*\* Major catalyst event that could impact share price very significantly while \*\*\* event is more informative

Source: Laidlaw & Company and company presentation

## Major Risks

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**Risks of clinical study failure could have a major impact on ALDX share value.** Although promising aspects of the company's lead products, NS2 in the two indications under clinical trials; it remains too early to predict the safety and efficacy from the two ongoing Phase II studies. The clinical validation for these programs has not been established. The success of the each study could illustrate NS2 treatment potential of separate disease areas. It is important that one or both studies demonstrate a positive outcome in order to increase the company's assets and shareholder value. Negative results of either of the Phase II studies could impair shareholder value. Further, should these programs further advance into later clinical stage development, it remains too early to predict any potential success of such clinical trials. In SLS, it is possible that elevated fatty alcohol, instead of elevated aldehyde, affects the progression of the disease. If so, NS2 might not have the therapeutic effect on of elevated fatty alcohol levels. We view this to be a very modest risk, however.

**Products may not be approved or reach anticipated sales.** Aldeyra's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials. However it remains too early to project whether any of these products will be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect ALDX shareholder value.

**Limited product offering and further validation of technology represent limited diversification to investors.** The major technology platform of ALDX is aldehyde trapping and the company currently has only one drug, NS2, in two different delivery forms, in clinical studies. As such, ALDX has a very concentrated product offering portfolio and hence, exhibits limited diversification for investors. In addition, although aldehyde trapping is a novel and logical approach in drug development, it remains too early to gain greater buy-in within medical and investor communities since clinical validation remains very limited.

**Additional financings could dilute shareholder value.** Although the company currently has ~\$17MM (pro forma) cash after recent financing, ALDX could need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

**Limited trading liquidity limits shareholder options.** Given ALDX shares only entered the public market recently; daily trading volume and name recognition are relatively modest. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Figure 1: Income Statement

Aldeyra Therapeutics – Income Statement													
(\$'000)	2012	2013	2014E	1Q15	2Q15	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>													
Product revenue	0	0	0	-	-	-	-	0	0	1,492	12,162	49,287	123,139
Other revenue	0	0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	0	-	-	-	-	0	0	1,492	12,162	49,287	123,139
Costs of goods										134	1,095	4,436	11,083
Gross sales										1,358	11,067	44,851	112,057
Research and development	469	1,542	3,708	1,136	1,249	1,849	2,218	6,453	8,259	9,333	10,173	11,089	11,976
General and administrative	645	2,135	3,563	972	955	974	1,013	3,914	4,266	4,863	5,107	5,362	5,630
Marketing and sales										15,000	16,500	25,575	26,854
<b>Total Operating Expenses</b>	1,114	3,676	7,271	2,109	2,204	2,823	3,231	10,366	12,525	29,196	31,780	42,025	44,459
<b>Operating Incomes (losses)</b>	(1,114)	(3,676)	(7,271)	(2,109)	(2,204)	(2,823)	(3,231)	(10,366)	(12,525)	(27,839)	(20,713)	2,826	67,597
Change in fair value of preferred stock warrant liabilities	(9)	721	2,328	-	-	-	-	0	500	500	500	500	500
Change in fair value of convertible preferred stock rights and rig	(126)	16,175	0	-	-	-	-	0	0	0	0	0	0
Value provided in excess of issuance price of Series B convert	(21,485)	0	0	-	-	-	-	0	0	0	0	0	0
Interest income	0	0	0	-	-	-	-	0	0	0	0	0	0
Other expenses	1	0	0	-	-	-	-	0	0	0	0	0	0
Interest expense	(342)	(159)	(244)	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)	(113)
Total Other Income (Expense)	(21,951)	16,737	2,083	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)	(113)
Net loss and comprehensive loss	(23,075)	13,060	(5,187)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	2,713	67,485
Accretion of preferred stock	(389)	(823)	(333)	-	-	-	-	0	0	0	0	0	0
Allocation of undistributed earnings to preferred stockholders		(11,128)	0	-	-	-	-	0	0	0	0	0	0
Deemed dividend	(15,662)	0	(4,054)	-	-	-	-	0	0	0	0	0	0
Tax	0	0	0	-	-	-	-	0	0	0	0	(1,004)	(24,969)
<b>Net Income (Loss)</b>	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	1,709	42,515
Net Income (Loss) Applicable to Common Shareholders	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	1,709	42,515
Net Earnings (Losses) Per Share—Basic	(\$124.44)	\$3.49	(\$2.51)	(\$0.32)	(\$0.27)	(\$0.33)	(\$0.36)	(\$1.28)	(\$1.24)	(\$2.50)	(\$1.71)	\$0.13	\$3.00
Net Earnings (Losses) Per Share—Diluted	(\$124.44)	(\$17.58)	(\$3.09)	(\$0.32)	(\$0.27)	(\$0.33)	(\$0.36)	(\$1.28)	(\$1.24)	(\$2.50)	(\$1.71)	\$0.13	\$3.00
Shares outstanding—basic	314	318	3,818	6,668	8,398	8,698	8,998	8,190	10,190	11,190	12,190	13,190	14,190
Shares outstanding—diluted	314	857	3,851	6,668	8,398	8,698	8,998	8,190	10,190	11,190	12,190	13,190	14,190
<b>Margin Analysis (% of Sales/Revenue)</b>													
Costs of goods									9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	625%	84%	22%	10%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	326%	42%	11%	5%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1866%	-170%	6%	55%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1873%	-171%	3%	35%
<b>Financial Indicator Growth Analysis (YoY%)</b>													
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	715%	305%	150%
R&D	NA	229%	140%	156%	88%	55%	58%	74%	28%	13%	9%	9%	8%
SG&A	NA	231%	67%	21%	-3%	26%	1%	10%	9%	14%	5%	5%	5%
Marketing and sales											10%	55%	5%
Operating Income (Losses)	NA	230%	98%	69%	34%	43%	34%	43%	21%	122%	-26%	-114%	2292%
Pretax Income	NA	-157%	-140%	-632%	97%	42%	33%	102%	21%	121%	-25%	-113%	2387%
Net Income	NA	-103%	-963%	16037%	-58%	42%	47%	9%	21%	121%	-25%	-108%	2387%
EPS	NA	-103%	-172%	692%	-81%	-9%	-8%	-49%	-3%	101%	-32%	-108%	2212%
Yale Jen, Ph.D. 212-953-4978													

Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates

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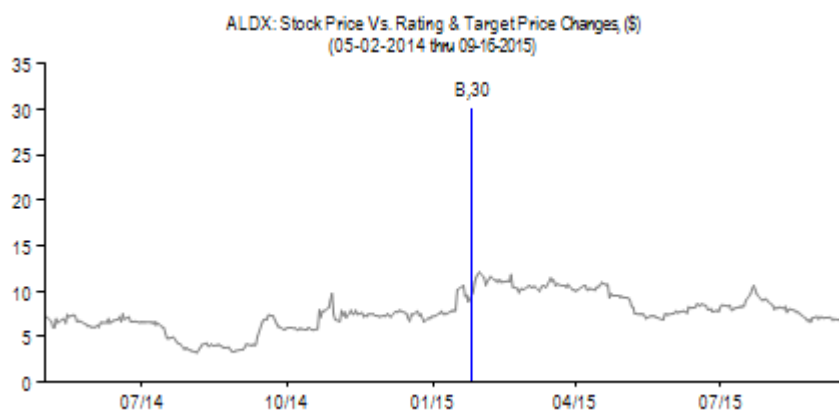
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#### Rating and Price Target Change History



#### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
01/26/2015	Buy (B)	9.86

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
01/26/2015	30.00	9.86

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	74.19%	25.81%	6.45%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	3.23%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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